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Note by the Secretary-General

The Secretary-General has the honour to transmit herewith to the Security Council the report of the Board of Auditors on the United Nations escrow (Iraq) accounts for the year ended 31 December 2008.

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Report of the Board of Auditors on the audit of the United Nations escrow (Iraq) accounts established under the provisions of Security Council resolutions 687 (1991), 706 (1991), 778 (1992), 986 (1995), 1284 (1999), 1483 (2003) and 1762 (2007) for the 12-month period ended 31 December 2008 of the biennium 2008-2009

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Letter dated 31 March 2009 from the Secretary-General to the Chairman of the United Nations Board of Auditors

In accordance with financial regulation 6.5, I have the honour to submit the accounts of the United Nations escrow accounts established pursuant to Security Council resolutions 687 (1991), 706 (1991), 778 (1992), 986 (1995), 1284 (1999), 1483 (2003) and 1762 (2007), for the 12-month period ended 31 December 2008 of the biennium 2008-2009, which I hereby approve. The financial statements have been completed and certified as correct by the Controller.

(*Signed*) **Ban** Ki-moon

Letter dated 10 July 2009 from the Chairman of the United Nations Board of Auditors to the President of the Security Council

I have the honour to transmit to you the financial statements of the United Nations escrow accounts established pursuant to Security Council resolutions 687 (1991), 706 (1991), 778 (1992), 986 (1995), 1284 (1999), 1483 (2003) and 1762 (2007) for the 12-month period ended 31 December 2008 of the biennium 2008-2009, which were submitted by the Secretary-General. The statements have been examined by the Board of Auditors.

In addition, I have the honour to present the report of the Board of Auditors with respect to the above accounts, including the audit opinion thereon.

(*Signed*) Terence **Nombembe**
Auditor-General of the Republic of South Africa
Chairman, United Nations Board of Auditors

I. Report of the Board of Auditors

Summary

The United Nations Board of Auditors has audited the financial statements of the United Nations escrow (Iraq) accounts established under the provisions of Security Council resolutions relating to Iraq for the 12-month period ended 31 December 2008 of the biennium 2008-2009. These financial statements have been prepared on the liquidation basis of accounting which is described in note 3 (a) to the financial statements. The audit was carried out through a review of financial transactions and liquidation activities covering the period mentioned above.

The Board issued an unmodified audit report (audit opinion) on the financial statements for the period under review, as reflected in section II.

Follow-up of previous recommendations of the Board

In response to the request of the Advisory Committee on Administrative and Budgetary Questions, the Board evaluated the results and impact of the Administration's efforts to implement the Board's previous recommendations. There was only one audit recommendation contained in the Board's report for the biennium ended 31 December 2007, which was under implementation, as indicated in the annex to the present section.

Liquidation activities

In 2008, the liquidation of the oil-for-food programme was in its fifth year of operation following the adoption by the Security Council of resolution 1483 (2003). Owing to the continuous work of the Working Group, which comprises representatives from the Government of Iraq, the Central Bank of Iraq and the Secretariat, the number of letters of credit was reduced from 210 as at 31 December 2007 to 95 as at 31 December 2008. However, the liquidation continued to be hampered by the delay in the issuance of authentication documents by the Government of Iraq despite the repeated calls of the Security Council and the Secretary-General. This has delayed the complete closure of the programme.

Reserves and fund balances

As at 31 December 2008, the total reserves and fund balances of the "Humanitarian activities in Iraq" account and the "Administrative and operational costs" account amounted to $609 million, including $2.5 million of reserves for end-of-service and post-retirement benefits, $206.2 million of reserves for any unanticipated claims from suppliers and expected administrative costs during liquidation, and $400.3 million of cumulative surplus.

The Board noted that the processing of the authentication documents remained slow during the period under review. In addition, there was no timetable to resolve all outstanding issues and to complete the closure of the oil-for-food programme.

Recommendations

The Board has made two recommendations based on its audit. They are that the Administration:

(a) **Settle the outstanding accounts payable and receivable of the United Nations Monitoring, Verification and Inspection Commission and transfer all remaining unencumbered funds to the Development Fund for Iraq in accordance with Security Council resolution 1762 (2007);**

(b) **Keep under review the matter of transferring the unencumbered funds to the Development Fund for Iraq.**

A. Mandate, scope and methodology

1. The Board of Auditors has audited the financial statements of the United Nations escrow (Iraq) accounts established under the provisions of Security Council resolutions 687 (1991), 706 (1991), 778 (1992), 986 (1995), 1284 (1999), 1483 (2003) and 1762 (2007) for the 12-month period ended 31 December 2008 of the biennium 2008-2009. The audit was conducted in conformity with article VII of the Financial Regulations and Rules of the United Nations and the annex thereto, as well as with the International Standards on Auditing. Those standards require that the Board plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free of material misstatement.

2. The audit was conducted primarily to enable the Board to form an opinion as to whether the financial statements presented fairly the financial position of the United Nations escrow (Iraq) accounts as at 31 December 2008 and the results of operations and cash flows for the 12-month period then ended, in accordance with the United Nations system accounting standards. This included an assessment as to whether the expenditures recorded in the financial statements had been incurred for the purposes approved by the governing bodies and whether income and expenditures had been properly classified and recorded in accordance with the Financial Regulations and Rules of the United Nations. The audit included a general review of financial systems and internal controls and a test examination of the accounting records and other supporting evidence to the extent that the Board considered necessary to form an opinion on the financial statements.

3. In addition to the audit of the accounts and financial transactions, the Board carried out a review of the liquidation activities of the United Nations escrow (Iraq) accounts. The Board also reviewed the actions taken by the Administration to implement previous recommendations.

4. The present report covers matters that, in the opinion of the Board, should be brought to the attention of the Security Council. The Board's observations and recommendations were discussed with the Administration, whose views have been appropriately reflected in the present report.

B. Detailed findings and recommendations

1. Follow-up of previous recommendations of the Board

5. The Board reviewed the actions taken by the Administration to implement the recommendation made in its report for the biennium ended 31 December 2007 (S/2008/510). That recommendation related to the pursuit by the Administration with the designated bank to review and release the cash collaterals associated with expired letters of credit with no claims of delivery. The Administration explained that it has continuously reviewed the letters of credit in collaboration with the designated bank and the Government of Iraq. As a result of the review, the number of letters of credit was reduced from 210 as at 31 December 2007 to 95 as at 31 December 2008. The cash collaterals for the cancelled letters of credit were released from the collateral portion to the non-collateral portion of the United Nations escrow (Iraq) accounts. The Board therefore considers that this recommendation is under implementation, as indicated in the annex to the present section.

2. Liquidation activities and status of the oil-for-food programme

Liquidation activities

6. Following the adoption of Security Council resolution 1483 (2003), the oil-for-food programme was terminated on 21 November 2003. The Administration continued the wind-down and liquidation of the escrow (Iraq) accounts, and arrangements and progress were regularly reported to the Security Council. In his letter to the Secretary-General dated 8 November 2007 (S/2007/661), the President of the Security Council conveyed the Council members' affirmation that the oil-for-food programme would be terminated by 31 December 2007. The Security Council later extended the time limit to resolve outstanding issues until 30 June 2008 through the letter dated 23 May 2008 from the President of the Council to the Secretary-General (S/2008/341). At the time of the audit, the programme was still under liquidation and its closure was pending. The Secretary-General, by his letter to the President of the Security Council dated 1 May 2009 (S/2009/230), apprised the Security Council of the status of the remaining activity relating to the programme.

7. At meetings between the representatives of the Government of Iraq and the United Nations Secretariat during November 2007, it was agreed that a Working Group made up of members of the Secretariat, the Ministry of Foreign Affairs of the Government of Iraq, the Central Bank of Iraq and the concerned ministries of the Government of Iraq would be set up to resolve issues arising from the unpaid letters of credit with claims of delivery related to the oil-for-food programme. In 2008, the Working Group held three meetings to address and resolve outstanding issues.

8. In his letters to the President of the Security Council dated 11 March 2008 (S/2008/175), 9 May 2008 (S/2008/318) and 25 July 2008 (S/2008/492), the Secretary-General reported to the Security Council on the outcomes of the meetings of the Working Group, the continuing arrangements for the liquidation of the outstanding letters of credit and the slow progress being made, and reiterated the proposal to resolve outstanding issues, including, but not limited to, the establishment of a dispute resolution mechanism.

9. The Security Council took note of the matter and, through the letter from the President of the Council to the Secretary-General dated 23 May 2008 (S/2008/341), the members of the Council affirmed that, in the light of the report to be submitted by the Secretary-General in July 2008, they would, at that time, take the necessary decisions in order to conclude all outstanding issues and end the oil-for-food programme without the possibility of any further extensions.

10. At its meeting held from 27 to 30 May 2008 in Amman, the Working Group proposed three alternatives to be considered by the Security Council in order to conclude all outstanding issues, as follows: (a) in accordance with the instructions of the Security Council, the Working Group would continue its work to process the remaining letters of credit; (b) the establishment of a dispute resolution mechanism to resolve all outstanding issues relating to the unpaid letters of credit; and (c) the transfer of responsibility for the administration of the remaining activity under the oil-for-food programme to the Government of Iraq (see S/2008/492, attachment, para. 18). The Board was informed that no further response to the three proposals had been received from the Security Council by the time of the audit.

Letters of credit

11. As in previous years, all obligations relating to contracts that had not been prioritized in accordance with Security Council resolution 1483 (2003) have been closed, except those for which letters of credit have been retained by the Administration. Obligations relating to contracts that had been prioritized remained as liabilities of the oil-for-food programme, and the related letters of credit have not been closed.

12. Under existing procedures pursuant to Security Council resolution 986 (1995) and subsequent resolutions relating to the programme, payments can not be made to suppliers who have delivered goods and services in Iraq without receipt of the corresponding authentication documents from the Central Bank of Iraq on behalf of the Government of Iraq. In the absence of authentication documents, letters of credit with claims of delivery would remain unresolved, and the corresponding cash collateral would continue to be held in the United Nations escrow (Iraq) accounts.

13. The United Nations Secretariat regularly reviewed letters of credit that had expired without claims of delivery asserted by the supplier to determine whether a letter of credit could be cancelled. With the cancellation of the letters of credit, the corresponding cash collateral was released from the collateral portion to the non-collateral portion of the United Nations escrow (Iraq) accounts and the unliquidated obligations were cancelled accordingly.

14. In 2008: (a) 84 letters of credit were fully cancelled; (b) 7 letters of credit were fully paid; and (c) 24 letters of credit were partially paid and the remaining balances were cancelled. As a result, the number of letters of credit decreased from 210 as at 31 December 2007, with a value of $656.25 million, to 95 as at 31 December 2008 with a value of $344.69 million, as shown in table 1. All 95 outstanding letters of credit had expired by 31 December 2007.

Table 1
Outstanding letters of credit as at 31 December 2008
(United States dollars)

Expiration date	*Number of letters of credit*	*Amount*
2004	22	24 106 865
2005	3	1 045 663
2006	35	109 742 365
2007	35	209 791 263
Total	**95**	**344 686 156**

Note: Based on the designated bank's liability report.

Processing of authentication documents

15. More than five years after the announcement of the termination of the oil-for-food programme in November 2003, the Secretary-General expressed in his letters to the President of the Security Council his concern over the chronic problem of the slow provision or non-provision of the necessary authentication documents by the Government of Iraq. He reiterated the need for the Government of Iraq to process

the confirmation of arrival of goods and services relating to letters of credit to make it possible to terminate the operation of the programme.

16. Since the situation could present a serious risk to the termination of the programme, the Security Council strongly encouraged the Government of Iraq to do its utmost in the meantime, in liaison with the Secretariat of the United Nations, to expedite the processing of the remaining letters of credit (see S/2008/341).

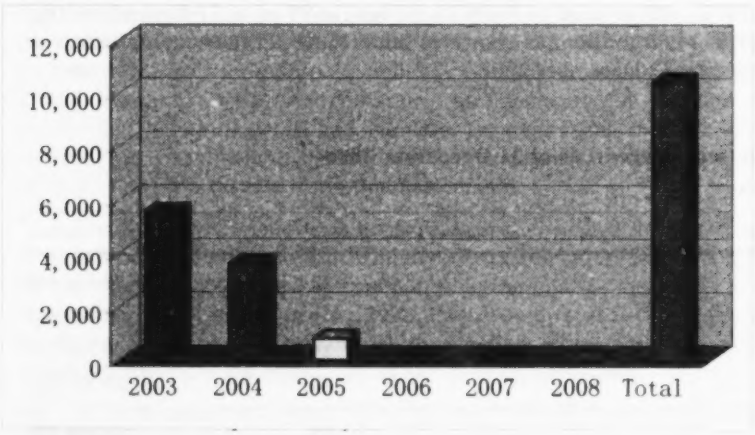
17. The Board is concerned that the liquidation continues to be hampered by the delay in the issuance of authentication documents by the Government of Iraq despite the repeated calls of the Security Council and the Secretary-General. This has delayed the termination of the oil-for-food programme, with no timetable to resolve all outstanding issues and to complete the closure of the programme.

Development Fund for Iraq

18. The Development Fund for Iraq was established pursuant to Security Council resolution 1483 (2003), which mandated, inter alia, that unencumbered funds from the oil-for-food programme be transferred to the Fund. As shown in the figure below, from the adoption of Security Council resolution 1483 (2003) up to 31 December 2008, total transfers to the Fund amounted to $10.42 billion, including transfers of $5.86 million in 2008. The mandate of the Board does not include auditing of the activities or financial records of the Fund.

Funds transferred to the Development Fund for Iraq

(Millions of United States dollars)



"Monitoring, verification and inspection" account

19. By its resolution 687 (1991), the Security Council established the United Nations Special Commission to carry out immediate on-site inspection of Iraq's biological, chemical and missile capabilities. Noting that Iraq had not complied with Council resolutions 686 (1991) and 687 (1991), the Council, by its resolution 1284 (1999), established the United Nations Monitoring, Verification and Inspection Commission (UNMOVIC), which replaced the Special Commission. UNMOVIC assumed the responsibilities mandated to the Special Commission and took over all

of its assets, liabilities and archives. Its costs were met from the funds deposited in the escrow accounts established under Security Council resolution 986 (1995).

20. By its resolution 1762 (2007), the Security Council terminated the mandate of UNMOVIC and requested the Secretary-General to transfer to the Government of Iraq through the Development Fund for Iraq not later than three months from the date of adoption of the resolution, all remaining unencumbered funds in the account established pursuant to paragraph 8 (e) of resolution 986 (1995), after returning to Member States at their request contributions made by them pursuant to paragraph 4 of resolution 699 (1991).

21. From the adoption of resolution 1762 (2007) to 31 December 2008, $28.5 million was transferred from the UNMOVIC account to the Development Fund for Iraq. However, as at 31 December 2008, the total assets of UNMOVIC amounted to $1.78 million, while the corresponding liabilities amounted to $130,000.

22. **The Administration agreed with the Board's recommendation that it: (a) settle the outstanding accounts payable and receivable; and (b) transfer all remaining unencumbered funds of UNMOVIC to the Development Fund for Iraq in accordance with Security Council resolution 1762 (2007).**

3. United Nations system accounting standards and financial statement disclosures

23. The Board assessed the extent to which the financial statements of the United Nations escrow (Iraq) accounts for the 12-month period ended 31 December 2008 of the biennium 2008-2009 conformed to the United Nations system accounting standards. The review indicated that the presentation of the financial statements was generally consistent with the standards.

24. As stated in note 3 (a), the financial statements were presented on the liquidation basis of accounting, which may require realization of assets and extinguishment of liabilities outside the normal course of business. The Administration disclosed that the United Nations escrow (Iraq) accounts had no assets or liabilities requiring adjustment or classification under the liquidation basis of accounting.

4. Financial overview

25. The significant account balances reflected in statements I and II in section IV are set out in table 2. There was a net excess of income over expenditure of $13.4 million in 2008, compared with a net shortfall of $11.35 million in 2006.

Table 2
Analysis of account balances
(Thousands of United States dollars)

Account	*2008*	*2006*	*Increase (decrease)*	*Percentage increase (decrease)*
Total income	37 698	68 641[a]	(30 943)	(45)
Interest income (included in total income)	34 783	48 700	(13 917)	(29)
Total expenditure	24 305	79 987	(55 682)	(70)
Purchases of humanitarian supplies and oil spares (included in total expenditure)	1 406	64 692	(58 638)	(98)
Cash and term deposits	928 671	1 124 850	(196 179)	(17)
Cash pool	25 469	95 551	(70 082)	(73)
Unliquidated obligation	348 032	916 670	(568 325)	(62)
Reserves and fund balances	610 890	312 103	298 787	96

Note: Based on the audited financial statements.

[a] The amount of total income in 2006 was restated by deducting $4.1 million of "funding from operating reserves" from the original amount of $72.74 million to conform to the current presentation.

26. Total income of $37.7 million in 2008, which was derived mainly from interest earned on cash and term deposits as well as the cash pool, decreased by 45 per cent compared with the total income of $68.64 million in 2006. This decrease was attributable primarily to: (a) the currency exchange loss of $17.09 million in 2008 owing to the fluctuations in currency exchange rates between the United States dollar and other currencies compared with the currency exchange gain of $18.82 million in 2006; and (b) the decline in interest income from $48.7 million in 2006 to $34.78 million in 2008 owing to the decrease of interest rates.

27. Total expenditure declined by 70 per cent, from $79.99 million in 2006 to $24.3 million in 2008. Statement I in section IV reflects a total expenditure of $18.5 million for humanitarian activities in 2008. Of that amount, $17.09 million pertained to currency exchange adjustments, and $1.41 million pertained to the purchase of humanitarian supplies and spare parts. From the inception of the oil-for-food programme up to 31 December 2008, total expenditures for the purchase of humanitarian supplies and oil spares reached $43.91 billion, as shown in table 3.

Table 3
Expenditures for humanitarian supplies and oil spares
(Thousands of United States dollars)

Period	*Humanitarian supplies*	*Oil spares*	*Total*
1996-1997	2 401 843	0	2 401 843
1998-1999	6 026 701	344 687	6 371 388
2000-2001	19 988 807	2 368 641	22 357 448
2002-2003	11 119 750	1 286 236	12 405 986

Period	*Humanitarian supplies*	*Oil spares*	*Total*
2004-2005	200 358	79 387	279 745
2006-2007	86 554	1 701	88 255
2008	684	722	1 406
Total	**39 824 697**	**4 081 374**	**43 906 071**

Note: Based on data provided by the Administration.

28. Total cash resources (cash and term deposits and cash pool), which amounted to $1.22 billion as at 31 December 2006, decreased by 22 per cent, to $954.14 million, as at 31 December 2008. Despite the decline, the cash resources of the "Humanitarian activities in Iraq" account, amounting to $928.63 million, were still sufficient to cover the $346.56 million of current and prior-year unliquidated obligations arising from approved contracts for humanitarian supplies and oil spares.

5. Accounts and financial reporting

Reserves and fund balances

29. Paragraph 17 of Security Council resolution 1483 (2003) states that after deducting all relevant United Nations expenses associated with the shipment of authorized contracts and costs to the programme outlined in paragraph 16 (c) of the resolution, including residual obligations, all surplus funds in the escrow accounts established pursuant to paragraph 8 (a), 8 (b), 8 (d) and 8 (f) of resolution 986 (1995) should be transferred at the earliest possible time to the Development Fund for Iraq.

30. As at 31 December 2008, the total reserves and fund balances of the "Humanitarian activities in Iraq" account and the "Administrative and operational costs" account amounted to $608.8 million, an increase of 60 per cent compared with $381.6 million as at 31 December 2007. Of the above-mentioned $609 million, $2.5 million represented reserves for end-of-service and post-retirement benefits, $206.2 million stood for other reserves for any unanticipated claims from suppliers and expected administrative costs during liquidation, and the remaining $400.3 million was cumulative surplus.

31. In the Note attached to his letter to the President of the Security Council dated 11 March 2008 (S/2008/175), the Secretary-General suggested that $100 million be transferred from the unencumbered fund to the Development Fund for Iraq pursuant to Security Council resolution 1483 (2003). In his letter dated 23 May 2008 (S/2008/341), the President of the Security Council informed the Secretary-General that the members of the Council had taken note of the possibility of transferring unencumbered funds to the Development Fund for Iraq and recommended that all unencumbered funds associated with the oil-for-food programme remain in the United Nations escrow (Iraq) accounts until such time as all outstanding issues had been resolved.

32. The Board noted that the processing of the authentication documents remained slow during the period under review and that there was no timetable to resolve all outstanding issues and to complete the closure of the oil-for-food programme. In addition, as at 31 December 2008, there were still reserves of $206.2 million for any unanticipated claims from suppliers and expected liquidation costs.

33. **The Board recommends that the Administration keep under review the matter of transferring the unencumbered funds to the Development Fund for Iraq.**

34. The Administration explained that it had already been reviewing the matter of slowness of receipt of the authentication documents and continued to keep under review the issue of transferring the unencumbered funds to the Development Fund for Iraq.

35. Taking into consideration the large amount of reserves and fund balances as at 31 December 2008 as well as the absence of a timetable to resolve all outstanding issues and to complete the closure of the oil-for-food programme, the Board is of the view that the ongoing review of the matter of transferring the unencumbered funds to the Development Fund for Iraq at the earliest possible time would be favourable to the implementation of Security Council resolution 1483 (2003).

6. Write-offs and disposals

36. As required by rules 106.8 and 106.9 of the Financial Regulations and Rules of the United Nations, the Administration informed the Board that there had been only one write-off in 2008 in the amount of $2,415. This write-off related to receivables outstanding for more than two years owing to the overpayment to a staff member.

7. Ex gratia payments

37. In accordance with rule 105.12 of the Financial Regulations and Rules, the Administration reported to the Board that there had been no ex gratia payments in respect of the United Nations escrow (Iraq) accounts for the period under review.

8. Independent inquiry into the oil-for-food programme

38. In April 2004, the Secretary-General appointed a high-level Independent Inquiry Committee to investigate the administration and management of the programme. Although the work of the Committee was substantially completed in 2005, its term was extended to assist duly authorized law enforcement and regulatory agencies in cases arising from its work.

39. On 1 January 2007, the Committee wound up its operations, and the Office of the Independent Inquiry Committee was established for an interim period of two years as part of the Secretariat. The work of the Office of the Committee is being performed by the representative designated by the former members of the Committee and his or her designees. On 15 September 2008, the Secretary-General approved the recommendation of the representative of the Office of the Independent Inquiry Committee to extend its mandate until 31 December 2010. The costs of the Office of the Committee in 2008, which amounted to $364,000, were met from the "Administrative and operational costs" account.

9. Cases of fraud and presumptive fraud

40. The Administration informed the Board that there had been no cases of fraud or presumptive fraud that related to the United Nations escrow (Iraq) accounts for the period under review. However, in his letter to the Board dated 29 April 2009, the United Nations Controller indicated that investigations were being conducted by member countries on their own nationals and companies that were related to the oil-

for-food programme, which might or might not uncover any fraud or presumption of fraud.

C. Acknowledgement

41. The Board wishes to express its appreciation for the cooperation and assistance extended to its staff by the Secretary-General, the Under-Secretary-General for Management, the Assistant Secretary-General and Controller and members of their staff.

(*Signed*) Terence **Nombembe**
Auditor-General of the Republic of South Africa
(Chairman, United Nations Board of Auditors)

(*Signed*) **Liu** Jiayi
Auditor-General of the People's Republic of China
(Lead Auditor)

(*Signed*) Philippe **Séguin**
First President of the Court of Accounts of France

10 July 2009

Annex

Status of implementation of recommendation for the biennium ended 31 December 2007

Summary of recommendation	*Paragraph reference (S/2008/510)*	*Financial period first made*	*Fully implemented*	*Under implementation*	*Not implemented*	*Overtaken by events*
The Administration should continue to pursue with the designated bank the review and release of cash collaterals associated with the expired letters of credit with no claims of delivery	26	2006-2007		x		
Number of recommendations				1		
Percentage of total number of recommendations				**100**		

II. Report of the Board of Auditors (audit opinion)

Report on the financial statements

We have audited the accompanying financial statements of the United Nations escrow (Iraq) accounts established under the provisions of Security Council resolutions relating to Iraq for the 12-month period ended 31 December 2008 of the biennium 2008-2009. These statements comprise the statement of income and expenditure and changes in reserve and fund balances for the 12-month period ended 31 December 2008 of the biennium 2008-2009 (statement I), statement of assets, liabilities and reserves and fund balances as at 31 December 2008 (statement II), the statement of cash flows for the period then ended (statement III), and the notes to the financial statements.

Management's responsibility for the financial statements

The Secretary-General is responsible for the preparation and fair presentation of the financial statements in accordance with the United Nations system accounting standards. This responsibility includes: designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' responsibility

Our responsibility is to express an opinion on the financial statements based on our audit. We conducted our audit in accordance with the International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit includes evaluating the appropriateness of the accounting policies used and the reasonableness of the accounting estimates made by the Secretary-General, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements, which have been prepared on a liquidation basis of accounting, present fairly, in all material aspects, the financial position of the United Nations escrow (Iraq) accounts as at 31 December 2008 and

its financial performance and cash flows for the 12-month period then ended, in accordance with the United Nations system accounting standards.

Report on other legal and regulatory requirements

In our opinion, the transactions of the United Nations escrow (Iraq) accounts for the 12-month period ended 31 December 2008 that have come to our notice, or which we have tested as part of our audit have, in all significant respects, been in accordance with the Financial Regulations and Rules of the United Nations and legislative authority.

In accordance with article VII of the Financial Regulations and Rules, we have also issued a long-form report on the audit of the United Nations escrow (Iraq) accounts.

(*Signed*) Terence **Nombembe**
Auditor-General of the Republic of South Africa
(Chairman, United Nations Board of Auditors)

(*Signed*) **Liu** Jiayi
Auditor-General of the People's Republic of China
(Lead Auditor)

(*Signed*) Philippe **Séguin**
First President of the Court of Accounts of France

10 July 2009

III. Certification of the financial statements

1. The financial statements for the United Nations escrow (Iraq) accounts established prepared pursuant to Security Council resolutions 687 (1991), 706 (1991), 778 (1992), 986 (1995), 1284 (1999), 1483 (2003) and 1762 (2007), for the 12-month period ended 31 December 2008 of the biennium 2008-2009 have been prepared in accordance with financial rule 106.10.

2. The summary of significant accounting policies applied in the preparation of these statements is included as notes to the financial statements. The notes provide additional information and clarifications for the financial activities related to Security Council resolutions 687 (1991), 706 (1991), 778 (1992), 986 (1995), 1284 (1999), 1483 (2003) and 1762 (2007) undertaken by the Organization during the period covered by these statements, for which the Secretary-General has administrative responsibility.

3. I certify that the appended financial statements of the United Nations escrow (Iraq) accounts, numbered I to III, are correct.

(*Signed*) Jun **Yamazaki**
Assistant Secretary-General, Controller

27 March 2009

IV. Financial statements for the 12-month period ended 31 December 2008 of the biennium 2008-2009

Statement I

United Nations escrow accounts established under the provisions of Security Council resolutions relating to Iraq[a]

Statement of income and expenditure and changes in reserves and fund balances for the 12-month period ended 31 December 2008 of the biennium 2008-2009

(Thousands of United States dollars)

	Resolutions 986 (1995) and 1483 (2003)		*Resolutions 687 (1991), 706 (1991), 1284 (1999), 1762 (2007)*[b]	*Resolutions 687 (1991), 706 (1991), 1284 (1999)*[c]		
	Humanitarian activities in Iraq	*Administrative and operational costs*	*Monitoring, verification and inspection*	*Other activities*	*Total 2008*	*Total 2006*[d]
Income						
Interest income	33 688	881	214	—	34 783	48 700
Miscellaneous income	2 557	301	57	—	2 915	1 119
Currency exchange adjustments[e]	—	—	—	—	—	18 822
Total income	**36 245**	**1 182**	**271**	**—**	**37 698**	**68 641**
Expenditure						
Purchase of humanitarian supplies[f]	684	—	—	—	684	49 103
Purchase of spare parts[f]	722	—	—	—	722	15 589
Administrative expenses	—	3 615	1 709	120	5 444	13 228
Independent Inquiry Committee expenses[g]	—	364	—	—	364	2 067
Currency exchange adjustments[e]	17 091	—	—	—	17 091	—
Total expenditure	**18 497**	**3 979**[h]	**1 709**[h]	**120**	**24 305**	**79 987**
Excess (shortfall) of income over expenditure	**17 748**	**(2 797)**	**(1 438)**	**(120)**	**13 393**	**(11 346)**
Prior-period adjustments	—	(2)	—	—	(2)	(9)
Net excess (shortfall) of income over expenditure	**17 748**	**(2 799)**	**(1 438)**	**(120)**	**13 391**	**(11 355)**
Cancellation of prior-period obligations	214 909	198	180	1	215 288	233 304
Transfers to Development Fund for Iraq[i]	(2 436)	—	(3 423)	—	(5 859)	(185 000)

	Resolutions 986 (1995) and 1483 (2003)		Resolutions 687 (1991), 706 (1991), 1284 (1999), 1762 (2007)[b]	Resolutions 687 (1991), 706 (1991), 1284 (1999)[c]		
	Humanitarian activities in Iraq	*Administrative and operational costs*	*Monitoring, verification and inspection*	*Other activities*	*Total 2008*	*Total 2006*[a]
Transfers (to)/from the United Nations and other agencies	—	—	—	—	—	(417)
Transfers (to)/from other funds[j]	—	(225)		225	—	—
Other adjustments to fund balances	—	—	—	—	—	(1 694)
Reserves and fund balances, beginning of period	356 963	24 633	6 335	139	388 070	277 265
Reserves and fund balances, end of period	**587 184**	**21 807**	**1 654**	**245**	**610 890**	**312 103**

[a] There were no activities relating to pipelines tariff charges or assets transfers and contributions during this period; see also notes 1 and 3.
[b] Refers to the United Nations Monitoring Verification and Inspection Commission; see note 3.
[c] Refers to activities undertaken further to Security Council resolutions 687 (1991) and 706 (1991); see note 3.
[d] Restated to conform to the current presentation.
[e] Represents currency exchange fluctuations between the euro and the United States dollar and other currencies.
[f] Expenditure incurred during the period from January to December 2008 for humanitarian supplies and spare parts relating to adjustments and reinstatements of contracts entered into in previous years. This expenditure includes unliquidated obligations of $928,800.
[g] See note 4.
[h] The portion of expenditures that relates to disbursements is met from operating reserves; see note 5.
[i] Represents transfers to the Development Fund for Iraq held by the Central Bank of Iraq pursuant to Security Council resolution 1483 (2003); see notes 7 (e) and 7 (f).
[j] Represents the transfer of $225,000 to the High-level Coordinator for the repatriation or return of all Kuwaiti and third-country nationals or their remains and the return of all Kuwaiti property, as authorized by the Security Council.

The accompanying notes are an integral part of the financial statements.

Statement II

United Nations escrow accounts established under the provisions of Security Council resolutions relating to Iraq[a]

Statement of assets, liabilities and reserves and fund balances as at 31 December 2008

(Thousands of United States dollars)

	Resolutions 986 (1995) and 1483 (2003)		*Resolutions 687 (1991), 706 (1991), 1284 (1999), 1762 (2007)*	*Resolutions 687 (1991), 706 (1991), 1284 (1999)*		
	Humanitarian activities in Iraq	*Administrative and operational costs*	*Monitoring, verification and inspection*	*Other activities*	*Total 2008*	*Total 2006*
Assets						
Cash and term deposits	928 630	40	1	—	928 671	1 124 850
Cash pool	—	23 797[b]	1 672[c]	—	25 469	95 551
Accounts receivable						
Inter-fund balances receivable[d]	443	—	89	272	804	184
Accounts receivable from inter-agencies[e]	4 624	—	—	—	4 624	4 876
Other accounts receivable	46	23	16	7	92	7 897
Deferred charges	—	8	—	—	8	38
Total assets	**933 743**	**23 868**	**1 778**	**279**	**959 668**	**1 233 396**
Liabilities						
Unliquidated obligations — current year	928[f]	1 361	93	19	2 401	60 415
Unliquidated obligations — prior years	345 631[g]	—	—	—	345 631	856 255
Accounts payable						
Inter-fund balances payable[d]	—	627	—	—	627	2 011
Accounts payable to inter-agencies	—	—	—	—	—	24
Other accounts payable	—	73	31	15	119	894
End-of-service liabilities	—	—	—	—	—	1 694
Total liabilities	**346 559**	**2 061**	**124**	**34**	**348 778**	**921 293**
Reserves and fund balances						
Operating reserves[h]						
Reserves for end-of-service and post-retirement benefits	—	2 495	51	—	2 546	—

	Resolutions 986 (1995) and 1483 (2003)		Resolutions 687 (1991), 706 (1991), 1284 (1999), 1762 (2007)	Resolutions 687 (1991), 706 (1991), 1284 (1999)		
	Humanitarian activities in Iraq	*Administrative and operational costs*	*Monitoring, verification and inspection*	*Other activities*	*Total 2008*	*Total 2006*
Other reserves	187 000	19 221	1 322	—	207 543	204 037
Cumulative surplus	400 184	91	281	245	400 801	108 066
Total reserves and fund balances	**587 184**	**21 807**	**1 654**	**245**	**610 890**	**312 103**
Total liabilities and reserves and fund balances	**933 743**	**23 868**	**1 778**	**279**	**959 668**	**1 233 396**

[a] There were no activities relating to pipelines tariff charges or assets transfers and contributions during this period, see also notes 1 and 3.

[b] Represents share of the United Nations Headquarters cash pool for "Administrative and operational costs", comprising cash and term deposits $2,900,910, short-term investments $2,902,503 (market value $2,914,829), long-term investments $17,849,368 (market value $18,088,907) and accrued interest receivable $143,785.

[c] Represents share of the United Nations Headquarters cash pool for "Monitoring, verification and inspection" comprising cash and term deposits $203,826, short-term investments $203,938 (market value $204,804), long-term investments $1,254,147 (market value $1,270,978) and accrued interest receivable $10,103.

[d] See note 2 k (iv).

[e] Represents the funds advanced to the United Nations agencies for the implementation of humanitarian activities.

[f] Unliquidated obligations incurred during the period from January to December 2008 for humanitarian supplies and spare parts relating to adjustments and reinstatements of contracts entered into in previous years.

[g] See note 7 (d).

[h] See note 5.

The accompanying notes are an integral part of the financial statements.

Statement III

United Nations escrow accounts established under the provisions of Security Council resolutions relating to Iraq[a]

Statement of cash flows for the 12-month period ended 31 December 2008 of the biennium 2008-2009

(Thousands of United States dollars)

	Resolutions 986 (1995) and 1483 (2003)		*Resolutions 687 (1991), 706 (1991), 1284 (1999), 1762 (2007)*	*Resolutions 687 (1991), 706 (1991), 1284 (1999)*		
	Humanitarian activities in Iraq	*Administrative and operational costs*	*Monitoring, verification and inspection*	*Other activities*	*Total 2008*	*Total 2006*[b]
Cash flows from operating activities						
Net excess (shortfall) of income over expenditure (Statement I)	17 748	(2 799)	(1 438)	(120)	13 391	(11 355)
(Increase) decrease in inter-fund balances receivable	(443)	—	(89)	(133)	(665)	183
(Increase) decrease in accounts receivable from inter-agencies	—	—	—	—	—	436
(Increase) decrease in other accounts receivable	59	21	14	(5)	89	(5 181)
(Increase) decrease in deferred charges	—	(1)	11	—	10	2
Increase (decrease) in unliquidated obligations	(310 279)	902	(121)	18	(309 480)	(363 059)
Increase (decrease) in inter-fund accounts payable	(17)	312	(3 520)	—	(3 225)	(9 517)
Increase (decrease) in accounts payable to inter-agencies	—	—	—	—	—	(66)
Increase (decrease) in other accounts payable	—	(101)	(84)	14	(171)	(179)
Increase (decrease) in other liabilities	—	—	—	—	—	(1)
Increase (decrease) in end-of-service liabilities	—	—	—	—	—	1 694
Less: interest income	(33 688)	(881)	(214)	—	(34 783)	(48 700)
Net cash from operating activities	**(326 620)**	**(2 547)**	**(5 441)**	**(226)**	**(334 834)**	**(435 743)**
Cash flows from investing activities						
Interest income	33 688	881	214	—	34 783	48 700
Net cash from investing activities	**33 688**	**881**	**214**	**—**	**34 783**	**48 700**
Cash flows from financing activities						
Cancellation of prior period obligations	214 909	198	180	1	215 288	233 304
Transfers to the Development Fund for Iraq	(2 436)	—	(3 423)	—	(5 859)	(185 000)
Transfers (to)/from the United Nations and other entities	—	—	—	—	—	(417)
Transfers (to)/from other funds	—	(225)	—	225	—	—

	Resolutions 986 (1995) and 1483 (2003)		Resolutions 687 (1991), 706 (1991), 1284 (1999), 1762 (2007)	Resolutions 687 (1991), 706 (1991), 1284 (1999)		
	Humanitarian activities in Iraq	*Administrative and operational costs*	*Monitoring, verification and inspection*	*Other activities*	*Total 2008*	*Total 2006*[b]
Other adjustments to fund balances	—	—	—	—	—	(1 694)
Net cash from financing activities	**212 473**	**(27)**	**(3 243)**	**226**	**209 429**	**46 193**
Net increase (decrease) in cash and term deposits and cash pool	**(80 459)**	**(1 693)**	**(8 470)**	**—**	**(90 622)**	**(340 850)**
Cash and term deposits and cash pool beginning of period	**1 009 089**	**25 530**	**10 143**	**—**	**1 044 762**	**1 561 251**
Cash and term deposits and cash pool end of period	**928 630**	**23 837**	**1 673**	**—**	**954 140**	**1 220 401**

[a] There were no activities relating to pipelines tariff charges or assets transfers and contributions during this period; see also notes 1 and 3.
[b] Comparative figures have been reclassified to conform to current presentation.

The accompanying notes are an integral part of the financial statements.

Notes to the financial statements

Note 1
United Nations escrow account established under the provisions of Security Council resolution 986 (1995) (statements I, II and III)

(a) An escrow account to be administered by the Secretary-General was established in 1996 in order to receive the proceeds from the sale of Iraqi oil approved by the Security Council in resolution 986 (1995). In paragraph 1 of that resolution, the Security Council authorized States to permit the import of petroleum and petroleum products originating in Iraq, including financial and other essential transactions directly relating thereto, sufficient to produce a sum not exceeding a total of $1 billion every 90 days. In paragraph 3 of that resolution, the Council decided that the provision should remain in force for 180 days.

(b) The authorization given in paragraph 2 of resolution 986 (1995) permitted Turkey to import petroleum and petroleum products originating in Iraq, sufficient to meet the pipeline tariff charges for the transport of these products through the Kirkuk-Yumurtalik pipeline in Turkey, after the deduction of 30 per cent for the Compensation Fund. In resolution 1330 (2000), the Security Council revised this deduction to 25 per cent. Owing to the cessation of the oil-for-food programme pipeline tariff charges are no longer incurred.

(c) The provision of resolution 986 (1995) authorizing sales of Iraqi oil not exceeding a total of $1 billion every 90 days remained in force until 30 May 1998 in accordance with Security Council resolutions 1111 (1997), 1129 (1997), 1143 (1997) and 1158 (1998).

(d) The Security Council, in paragraph 2 of resolution 1153 (1998), which took effect on 1 June 1998, decided that the authorization given to States in paragraph 1 of resolution 986 (1995) should permit the import of petroleum and petroleum products originating in Iraq, including financial and other essential transactions directly relating thereto, sufficient to produce a sum not exceeding a total of $5.256 billion, in the 180-day period referred to in paragraph 1 of resolution 1153 (1998). This provision remained in force in accordance with resolutions 1210 (1998), 1242 (1999) and 1281 (1999).

(e) By resolution 1284 (1999) of 17 December 1999 the Security Council lifted the dollar cap and authorized sales of Iraqi oil of any volume during the 180-day mandate period. This provision remained in force in accordance with resolutions 1302 (2000), 1330 (2000), 1352 (2001), which extended the provisions of resolution 1330 (2000) for 30 days, and 1360 (2001), which extended the mandate period for 150 days, 1382 (2001), 1409 (2002), 1443 (2002), which extended the provisions of resolution 1409 (2002) until 4 December 2002, and 1447 (2002), which extended the mandate to 3 June 2003. The final sale of oil under the programme was for shipment made on 20 March 2003.

(f) The Security Council, in paragraphs 1 and 3 of resolution 1175 (1998), authorized States to permit the export to Iraq of the necessary parts and equipment ("spare parts") to enable Iraq to increase the export of petroleum and petroleum products, in quantities sufficient to produce the sum established in paragraph 2 of resolution 1153 (1998), and decided that the funds in the escrow account produced pursuant to resolution 1153 (1998) up to a total of $300 million might be used to

meet any reasonable expenses, other than expenses payable in Iraq, which followed directly from contracts approved by the Committee established by resolution 661 (1990). Resolutions 1293 (2000) and 1302 (2000) established that up to $600 million might be used to permit States to export to Iraq the necessary parts and equipment to enable Iraq to increase the export of petroleum and petroleum products. Resolutions 1330 (2000), 1352 (2001), 1360 (2001), 1382 (2001), 1409 (2002) and 1447 (2002) retained the $600 million limit.

(g) Security Council resolution 1330 (2000) allowed for funds of up to €600 million from the escrow account to be used for the cost of installation and maintenance, including training services, of spare parts and equipment relating to the oil industry.

(h) In its resolution 1472 (2003) of 28 March 2003, the Security Council recognized that in view of the exceptional circumstances prevailing in Iraq, on an interim and exceptional basis, technical and temporary adjustments should be made to the programme, and authorized the Secretary-General to make such changes for a period of 45 days.

(i) In its resolution 1476 (2003) of 24 April 2003, the Security Council decided that the provisions contained in paragraph 4 of resolution 1472 (2003) should remain in force until 3 June 2003 and might be subject to further renewal by the Council.

(j) In its resolution 1483 (2003) of 22 May 2003, the Security Council requested the Secretary-General to terminate the programme within six months and to transfer responsibility for the administration of any remaining activity to the Coalition Provisional Authority (the Authority). The Council also requested the consolidation of the accounts established pursuant to paragraphs 8 (a) (relating to 15 Governorates of central and southern Iraq) and 8 (b) (relating to 3 Governorates of northern Iraq) of resolution 986 (1995).

(k) Sale of Iraqi oil is recognized as revenue in the fund for humanitarian activities in Iraq based on the bill of lading date and the total value of oil loaded as stipulated in the commercial invoice issued by the State Oil Marketing Organization. The proceeds from the sale of Iraqi oil are allocated, upon receipt of deposits, to other accounts established pursuant to paragraph 8 of resolution 986 (1995). No oil sales have been recorded since 20 March 2003.

(l) The funds from the sale of Iraqi oil pursuant to the authorization given in paragraph 1 of resolution 986 (1995) are to be used to meet the humanitarian needs of the Iraqi people and for the other purposes set out in paragraph 8 of resolution 986 (1995). Resolution 1409 (2002) permits the sale or supply of any commodities or products other than those referred to in paragraph 24 of resolution 687 (1991) as it relates to military commodities and products, or military-related commodities or products covered by the Goods Review List (see S/2002/515) and the amendments thereto contained in annex A to resolution 1454 (2002). The percentages used in allocating the oil sale proceeds were determined as follows:

(i) 53.034 per cent to finance the export to Iraq of medicines, health supplies, food, and materials and supplies for essential civilian needs. In follow-up to resolution 1302 (2000), this was increased to 54.034 per cent and resolution 1330 (2000) authorized a further increase, to 59.034 per cent, less the payment referred to in (vi) below;

(ii) 13.0 per cent to complement the distribution by the Government of Iraq of imported goods by providing funds to the United Nations Inter-Agency Humanitarian Programme operating in the three northern governorates of Iraq, Arbil, Dihouk and Suleimaniyeh;

(iii) 2.215 per cent to meet the operational and administrative costs to the United Nations;

(iv) 30.0 per cent allocated to the Compensation Fund established pursuant to Security Council resolution 705 (1991). Pursuant to resolution 1330 (2000) this percentage was decreased to 25.0 per cent;

(v) 0.751 per cent allocated to the United Nations Monitoring, Verification and Inspection Commission established pursuant to Security Council resolution 1284 (1999), which replaced the special commissions established pursuant to Security Council resolution 687 (1991), to meet operating costs;

(vi) A maximum of $10 million every 90-day period to be allocated to the escrow account established pursuant to Security Council resolutions 706 (1991) and 712 (1991) for the payments envisaged under paragraph 6 of resolution 778 (1992). In resolution 1284 (1999), the Council decided to suspend payments to this escrow account for an initial period of six months from 17 December 1999. In resolution 1302 (2000), this suspension was extended for a further 180-day period and the allocation transferred to (i) above. In resolution 1330 (2000), the allocation of a maximum of $10 million every 90 days was reinstated from 6 December 2000.

(m) Notwithstanding the periods for the sale of Iraqi oil as authorized by the Security Council, financial statements I, II and III (United Nations escrow accounts) are prepared every six months.

(n) Included in financial statements I, II and III (United Nations escrow accounts) are details relating to the humanitarian activities and related operational and administrative costs that are undertaken under the provisions of Security Council resolution 986 (1995). From the beginning of the programme in December 1996 to mid-2000, implementation costs on actual expenditures incurred by agencies for activities associated with the purchase of humanitarian goods for northern Iraq were charged to the "Humanitarian activities in Iraq" account, and programme support costs on actual expenditures for the administrative and operational costs were charged to the "Administrative and operational costs" account. In mid-2000, following recommendations of the Board of Auditors, and taking into account the increased level of funds available in the "Administrative and operational costs" account, the Secretariat decided to prospectively charge all implementation and programme support costs to the "Administrative and operational costs" account. In mid-2002, the Secretariat reverted to the earlier treatment, whereby direct costs of implementing the programme in northern Iraq were charged to the "Humanitarian activities in Iraq" account. This decision reflected the need to harmonize treatment, whether the work was done by an agency itself or contracted out. In 2003, when agencies began implementing various aspects of the programme in southern/central Iraq, those implementation costs were also charged to the "Humanitarian Activities in Iraq" account, in line with the 2002 decision.

(o) The financial statements of the Compensation Fund (see paragraph (l), item (iv) above) are reported on in a separate volume of the United Nations financial statements.

(p) Expenditure incurred during the biennium 2008-2009 for humanitarian supplies and spare parts relates to adjustments and reinstatements of contracts entered into in previous years.

Note 2
Summary of significant accounting and financial reporting policies of the United Nations

(a) The accounts of the United Nations are maintained in accordance with the Financial Regulations and Rules of the United Nations adopted by the General Assembly, the rules formulated by the Secretary-General as required under the regulations, and administrative instructions issued by the Under-Secretary-General for Management, or the Controller. They also take fully into account the United Nations system accounting standards, as adopted by the United Nations System Chief Executives Board for Coordination. The Organization follows International Accounting Standard 1, "presentation of financial statements", on the disclosure of accounting policies, as modified and adopted by the United Nations System Chief Executives Board for Coordination, as shown below:

(i) Going concern, consistency and accrual are fundamental accounting assumptions. Where fundamental accounting assumptions are followed in financial statements, disclosure of such assumptions is not required. If a fundamental accounting assumption is not followed, that fact should be disclosed together with the reasons (see note 3 (a));

(ii) Prudence, substance over form and materiality should govern the selection and application of accounting policies;

(iii) Financial statements should include clear and concise disclosure of all significant accounting policies that have been used;

(iv) The disclosure of the significant accounting policies used should be an integral part of the financial statements. These policies should normally be disclosed in one place;

(v) Financial statements should show comparative figures for the corresponding period of the preceding financial period;

(vi) A change in an accounting policy that has a material effect in the current period or may have a material effect in subsequent periods should be disclosed together with the reasons. The effect of the change should, if material, be disclosed and quantified.

(b) The Organization's accounts are maintained on a fund accounting basis. Separate funds for general or special purposes may be established by the General Assembly, the Security Council, or the Secretary-General. Each fund is maintained as a distinct financial and accounting entity with a separate self-balancing double-entry group of accounts. Separate financial statements are prepared for each fund or for a group of funds of the same nature.

(c) The financial period of the Organization is a biennium and consists of two consecutive calendar years for all funds other than peacekeeping accounts, which are reported on a fiscal year basis covering the period 1 July-30 June.

(d) Generally, income, expenditure, assets and liabilities are recognized on the accrual basis of accounting.

(e) The accounts of the Organization are presented in United States dollars. Accounts maintained in other currencies are translated into United States dollars at the time of the transactions at rates of exchange established by the United Nations. In respect of such currencies, the financial statements shall reflect the cash, investments, unpaid pledges and current accounts receivable and payable in currencies other than the United States dollar, translated at the applicable United Nations rates of exchange in effect at the date of the statements. In the event that the application of actual exchange rates at the date of the statements would provide a valuation materially different from the application of the Organization's rates of exchange for the last month of the financial period, a footnote will be provided quantifying the difference.

(f) The Organization's financial statements are prepared on the historical cost basis of accounting and are not adjusted to reflect the effects of changing prices for goods and services.

(g) The cash flow summary statement is based on the indirect method of cash flows as referred to in the United Nations system accounting standards.

(h) The Organization's financial statements are presented in accordance with the ongoing recommendations of the Task Force on Accounting Standards to the High-level Committee on Management.

(i) Income:

(i) Voluntary contributions from Member States or other donors are recorded as income on the basis of a written commitment to pay monetary contributions at specified times within the current financial period. Voluntary contributions made in the form of services and supplies that are acceptable to the Secretary-General are credited to income or noted in the financial statements;

(ii) Income received under inter-organizational arrangements represents allocations of funding from agencies to enable the Organization to administer projects or other programmes on their behalf;

(iii) Allocations from other funds represent monies appropriated or designated from one fund for transfer to and disbursement from another fund;

(iv) Income for services rendered include amounts charged for salaries of staff members and other costs which are attributable to providing technical and administrative support to other organizations;

(v) Interest income includes all interest earned on deposits in various bank accounts, investment income earned on marketable securities and other negotiable instruments, and investment income earned in the cash pool. All realized losses and net unrealized losses on short-term investments are offset against investment income. Investment income and costs associated with the operation of investments in the cash pool are allocated to participating funds. Interest income is available for allotment purposes on a six-monthly basis;

(vi) Net gains or losses on currency fluctuations other than for current year's obligations are accumulated on a six-monthly basis. Effective 1 January 2002, the net amount is recognized as income or expenditure every six months in the financial statements;

(vii) Miscellaneous income includes income from the rental of premises, the sale of used or surplus property, refunds of expenditures charged to prior periods, settlements of insurance claims, monies accepted for which no purpose was specified and other sundry income;

(viii) Income relating to future financial periods is not recognized in the current financial period and is recorded as deferred income as referred to in paragraph l, item (iii) below.

(j) Expenditure:

(i) Expenditures are incurred against authorized appropriations or commitment authorities. Total expenditures reported include unliquidated obligations and disbursements. Expenditures also include currency exchange adjustments arising from the evaluation of current-period obligations;

(ii) Expenditures incurred for non-expendable property are charged to the budget of the period when acquired and are not capitalized. Inventory of such non-expendable property is maintained at historical cost;

(iii) Expenditures for future financial periods are not charged to the current financial period and are recorded as deferred charges as referred to in paragraph k, item (vi) below.

(k) Assets:

(i) Cash and term deposits represent funds in demand deposit accounts and interest bearing bank deposits;

(ii) Investments include marketable securities and other negotiable instruments acquired by the Organization to produce income. Short-term investments are stated at the lower of cost or market value; long-term investments are stated at cost. Cost is defined as the nominal value plus/minus any unamortized premium/discount. The market value of investments is disclosed in the footnotes to the financial statements;

(iii) Cash pools comprise participating funds' share of the cash and term deposits, short-term and long-term investments and accrual of investment income, all of which are managed in the cash pools. The investments in the cash pools are similar in nature. Short-term investments are stated at the lower of cost or market value; long-term investments are stated at cost. Cost is defined as the nominal value plus or minus any unamortized premium or discount. The share in cash pools is reported separately in each of the participating fund's statement and its composition and the market value of its investments are disclosed in footnotes in the individual statements;

(iv) Inter-fund balances reflect transactions between funds and are included in the amounts due to and from the United Nations General Fund. Inter-fund balances also reflect transactions directly with other escrow accounts and with the United Nations General Fund. Inter-fund balances are settled periodically, depending upon availability of cash resources;

(v) Provision for delays in the collection of receivable balances is not made;

(vi) Deferred charges normally comprise expenditure items that are not properly chargeable in the current financial period. They will be charged as expenditure in a subsequent period. These expenditure items include commitments approved by the Controller for future financial periods in accordance with financial rule 106.7. Such commitments are normally restricted to administrative requirements of a continuing nature and to contracts or legal obligations where long lead-times are required for delivery;

(vii) For purposes of the balance sheet statements only, those portions of education grant advances that are assumed to pertain to the scholastic years completed as at the date of the financial statement are shown as deferred charges. The full amounts of the advances are maintained as accounts receivable from staff members until the required proofs of entitlement are produced, at which time the budgetary accounts are charged and the advances settled;

(viii) Maintenance and repair of capital assets are charged against the appropriate budgetary accounts. Furniture, equipment, other non-expendable property and leasehold improvements are not included in the assets of the Organization. Such acquisitions are charged against budgetary accounts in the year of purchase. The value of non-expendable property is disclosed in the notes to the financial statements.

(l) Liabilities and reserves and fund balances:

(i) Operating reserves include reserves for end-of-service and post-retirement benefits, which are shown in a separate line on the financial statements. Operating reserves are included in the totals for reserves and fund balances shown in the financial statements;

(ii) Unliquidated obligations for future years are reported both as deferred charges and as unliquidated obligations;

(iii) Deferred income includes income received but not yet earned;

(iv) Commitments of the Organization relating to prior, current and future financial periods are shown as unliquidated obligations. Effective 1 January 2000, unliquidated obligations for the escrow account for humanitarian activities in Iraq remain valid until completion of the project. All other obligations continue to remain valid for 12 months following the end of the biennium to which they relate;

(v) Contingent liabilities, if any, are disclosed in the notes to the financial statements;

(vi) The United Nations is a member organization participating in the United Nations Joint Staff Pension Fund, which was established by the General Assembly to provide retirement, death, disability and related benefits. The Fund is a funded defined benefit plan. The financial obligation of the Organization to the Fund consists of its mandated contribution at the rate established by the General Assembly together with its share of any actuarial deficiency payments under article 26 of the Regulations of the Fund. Such deficiency payments are only payable if and when the General Assembly has

invoked the provision of article 26, following a determination that there is a requirement for deficiency payments based on an assessment of the actuarial sufficiency of the Fund as of the valuation date. As at the date of the current financial statement, the General Assembly has not invoked this provision.

Note 3
United Nations escrow accounts established under the provisions of Security Council resolutions 687 (1991), 706 (1991), 778 (1992) and 1284 (1999) (statements I, II and III)

(a) As the United Nations escrow accounts are in a liquidation process (see note 7 below), the going concern assumption is not followed and the financial statements are presented according to the liquidation basis of accounting, which may require realization of assets and extinguishment of liabilities outside the normal course of business. As at 31 December 2008, the escrow account had no assets or liabilities requiring adjustments in their measurement or classification under the liquidation basis of accounting.

(b) Included in financial statements I, II and III are the escrow accounts established pursuant to Security Council resolutions 706 (1991) and 712 (1991) for the payments envisaged under paragraph 6 of resolution 778 (1992), and the special account established pursuant to resolutions 687 (1991), 706 (1991) and 1284 (1999). The escrow account established under resolutions 706 (1991), 712 (1991) and 778 (1992) returned all funds in 2003. As a result there are no further transactions to report relating to this escrow account.

(c) The escrow accounts administered by the Secretary-General under Security Council resolutions 706 (1991) and 712 (1991) provided for Iraqi funds from the sale of oil to be used for payment by the United Nations Compensation Commission, the full costs of carrying out the tasks authorized by section C of resolution 687 (1991), the full costs incurred by the United Nations in facilitating the return of all Kuwaiti property seized by Iraq, half the costs of the Boundary Commission, and the cost to the United Nations of implementing resolution 706 (1991), and of other necessary humanitarian activities in Iraq:

(i) With the refusal of Iraq to sell oil under the provisions of Security Council resolutions 706 (1991) and 712 (1991), the Security Council adopted resolution 778 (1992) on 2 October 1992 as an alternate means of providing funds for the purposes specified. States in which there were petroleum products owned by Iraq or States in which there were funds of the Government of Iraq representing the proceeds of petroleum sales, paid for by the purchaser after 6 August 1990, were required to transfer some or all of these funds to the escrow account. In addition, in resolution 778 (1992) the Council urged States to contribute funds from other sources to the escrow account. All such funds transferred or contributed to the escrow account under the provisions of resolution 778 (1992) were to be transferred back to the accounts of States from which funds had been provided, together with applicable interest, at such time when oil exports had taken place pursuant to the system provided in resolutions 706 (1991) and 712 (1991) and the escrow account had received funds from the proceeds of sale. Iraqi oil exports began in December 1996 and in January 1997 the escrow account started receiving funds from the proceeds

of sale that were transferred back to the accounts of States that had provided the original funds to the escrow account;

(ii) In December 1999, pursuant to Security Council resolution 1284 (1999), payment to the escrow account from the proceeds of sale was suspended. The suspension, which was extended for an additional 180 days by Security Council resolution 1302 (2000), was lifted by resolution 1330 (2000) in December 2000;

(iii) In May 2003, the Security Council, in its resolution 1483 (2003) requested the Secretary-General to restore funds that had been provided by Member States pursuant to resolution 778 (1992). All such funds were returned in June 2003.

(d) The Security Council, in its resolution 687 (1991), requested the Secretary-General to undertake certain tasks in connection with the situation between Iraq and Kuwait. The costs of those activities were to be considered as an advance pending the receipt of payments to the Organization by Iraq in respect of certain activities, and by Iraq and Kuwait jointly in respect of the costs of the Boundary Commission:

(i) Since the adoption by the Security Council of resolution 778 (1992), the above-mentioned costs have been covered by transfers from the escrow account. Furthermore, the costs of the Special Commission are met by transfer from the escrow account pursuant to Security Council resolution 986 (1995);

(ii) The Security Council decided by resolution 1284 (1999), to establish the United Nations Monitoring, Verification and Inspection Commission (UNMOVIC). The responsibilities mandated to the Special Commission are undertaken by UNMOVIC;

(iii) In its resolutions 1483 (2003) and 1546 (2004), the Security Council reaffirmed its intention to revisit the mandate of UNMOVIC;

(iv) By its resolution 1762 (2007), the Security Council terminated the mandate of UNMOVIC and requested the Secretary-General to transfer all remaining unencumbered funds to the Government of Iraq within three months, after returning to Member States at their request contributions made by them pursuant to paragraph 4 of resolution 699 (1991).

Note 4
Independent Inquiry Committee into the United Nations oil-for-food programme

(a) In April 2004, the Secretary-General appointed a high-level, Independent Inquiry Committee to investigate the administration and management of the oil-for-food programme from its inception to its transfer to the Coalition Provincial Authority, including allegations of fraud and corruption on the part of United Nations officials, personnel and agents as well as contractors, including entities that had entered into contracts with the United Nations or with Iraq under the programme. By its resolution 1538 (2004) of 21 April 2004, the Security Council welcomed the inquiry. The Independent Inquiry Committee completed its investigation on 27 October 2005 and issued its final report.

(b) Effective 1 January 2007, the Independent Inquiry Committee wound up its operation, and the Office of the Independent Inquiry Committee was established for an interim period of two years as part of the Secretariat. The work of the Office is being performed by the representative designated by the former members of the Committee and his or her designees. In September 2008 the Secretary-General approved the recommendation of the representative of the Office of the Independent Inquiry Committee to extend the mandate of the Office until 31 December 2010.

(c) The costs of the Independent Inquiry Committee were met from funds allocated for the administrative and operational costs of the programme. Expenditures during the 12-month period ended 31 December 2008 of the biennium 2008-2009 were as follows:

(In thousands of United States dollars)

Salaries	186
Premises	35
Miscellaneous supplies and services	143
Total	**364**

Note 5
Operating reserves

"Humanitarian activities in Iraq" account

(a) An operating reserve of $126,660,000 was established as of 31 December 2005 under the "Humanitarian activities in Iraq" account to ensure that sufficient funds are available for the satisfactory resolution of all remaining issues relating to outstanding letters of credit. In a letter dated 10 July 2006 (S/2006/510), the Secretary-General, recalling that the United Nations had no indemnification from the Government of Iraq on the funds that had been transferred to date to the Development Fund of Iraq, informed the Security Council that until the issues of claims from suppliers were resolved, and if there was no objection from the Council, an amount of $187 million would be held as a reserve for any unanticipated claims from suppliers. In a letter dated 11 August 2006, the President of the Security Council informed the Secretary-General that Council members had taken note of the proposed arrangements, and an operating reserve of $187 million was established.

"Administrative and operational costs" account

(b) An operating reserve of $21,132,192 was established as of 31 December 2005 under the "Administrative and operational costs" account to meet the expected costs of the Independent Inquiry Committee and the administrative costs of the escrow accounts until all aspects of the programme are completed. Changes in the reserve since its establishment are summarized below:

(In thousands of United States dollars)

Operating reserves as at 31 December 2005		21 132
Utilization from 1 January 2006 to 31 December 2007	(6 368)	
Transfer from cumulative surplus	9 670	3 302

Operating reserve as at 31 December 2007	24 434
Utilization from 1 January 2008 to 31 December 2008	(2 718)
Operating reserves as at 31 December 2008	21 716
Comprised of:	
Reserves for end-of-service and post-retirement benefits	2 495[a]
Other reserves	19 221
Operating reserves as at 31 December 2008	**21 716**

[a] Reserves for end-of-service and post-retirement benefits comprised $97,711 for unused vacation days, $197,062 for repatriation benefits and $2,200,000 for after service health insurance benefits.

"Monitoring, verification and inspection" account

(c) An operating reserve of $35,958,863 was established as of 30 June 2007 under the "Monitoring, verification and inspection" account to meet the estimated liquidation costs pertaining to UNMOVIC, including the settlement of debts owed to the Government of Germany for archiving of documentation, and archiving and staff-related costs. Staff-related costs include accrued liabilities for end-of-service and post-retirement benefits. Changes in the reserve since its establishment are summarized below:

(In thousands of United States dollars)

Operating reserves as at 30 June 2007		35 959
Utilization from 1 July 2007 to 31 December 2007	(30 507)	
Transfer to cumulative surplus	(2 463)	(32 970)
Operating reserve as at 31 December 2007		2 989
Utilization from 1 January 2008 to 31 December 2008		(1 616)
Operating reserves as at 31 December 2008		1 373
Comprised of:		
Reserves for end-of-service and post-retirement benefits		51[a]
Other reserves		1 322
Operating reserves as at 31 December 2008		**1 373**

[a] Reserves for end-of-service benefits comprised $4,189 for unused vacation days and $46,368 for repatriation benefits.

(d) Contingent liabilities described in Note 8 shall be met to the extent necessary from operating reserves of the Programme.

Note 6
Non-expendable property

In accordance with United Nations accounting policies, non-expendable property is charged against the current allotment in the year of purchase. The non-expendable property valued at historical cost, according to the cumulative inventory records, is shown below (in thousands of United States dollars):

	2008	2006
UNMOVIC	1 194	10 763
Agencies*	959	1 181
Independent Inquiry Committee	290	630

* Owing to the current situation in Iraq, it was not possible to fully ascertain the value of non-expendable property in Iraq as at 31 December 2008.

Note 7
Future modus operandi of United Nations escrow accounts established under Security Council resolutions 986 (1995) and 1284 (1999)

(a) In its resolution 1483 (2003) of 22 May 2003, the Security Council extended the Secretary-General's responsibilities under Security Council resolutions 1472 (2003) and 1476 (2003) for a period of six months. The Council requested the Secretary-General to terminate, in the most cost-effective manner, the ongoing operations of the programme, both at Headquarters and in the field, by 21 November 2003, and to transfer responsibility for the administration of any remaining activity under the programme to the Coalition Provisional Authority.

(b) Accordingly, in the three governorates of Northern Iraq where the United Nations Agencies were implementing the programme, contracts entered into by the agencies were transferred to the Authority. Similarly, in the 15 governorates of central and southern Iraq where, after the outbreak of hostilities, agencies had been assigned responsibility for procurement activities previously undertaken by the Government of Iraq, uncompleted contracts were handed over to the Authority.

(c) By its resolution 1546 (2004), the Security Council decided that in connection with the dissolution of the Coalition Provisional Authority, the Interim Government of Iraq and its successors should assume the rights, responsibilities and obligations relating to the programme that had been transferred to the Coalition Provisional Authority, including all operational responsibility for the programme and any obligations undertaken by the Coalition Provisional Authority in connection with such responsibility, and responsibility for ensuring independently authenticated confirmation that goods had been delivered, and further decided that, following a 120-day transition period from the date of adoption of the resolution, the Interim Government of Iraq and its successors should assume all responsibility for certifying delivery of goods under previously prioritized contracts, and that such certification shall be deemed to constitute the independent authentication required for the release of funds associated with such contracts, consulting as appropriate to ensure the smooth implementation of those arrangements.

(d) As of 31 March 2009, the liquidation of the programme continued. All obligations relating to contracts that had not been prioritized in accordance with Security Council resolution 1483 (2003) had been closed, except for those where letters of credit had been retained. Obligations relating to contracts that had been prioritized remain as liabilities of the programme, and the related letters of credit have not been closed.

By his letters dated 8 August 2005 (S/2005/535), 17 October 2005 (S/2005/656), 19 December 2005 (S/2005/807), 10 July 2006 (S/2006/570), 8 December 2006 (S/2007/46), 27 March 2007 (S/2007/241), 9 April 2007, 25 July 2007 (S/2007/476), 7 December 2007 (S/2007/725), 11 March 2008 (S/2008/175), 9 May 2008 (S/2008/318) and 25 July 2008 (S/2008/492), the Secretary-General has

kept the Security Council informed of the arrangements for the liquidation of the outstanding letters of credit and of the slow progress being made.

In a letter dated 29 February 2008 from the President of the Security Council to the Secretary-General (S/2008/140) Council members called upon the Working Group, which comprises the Ministry of Foreign Affairs of the Government of Iraq, the Central Bank of Iraq and the Secretariat, to continue its efforts to resolve all outstanding issues and requested a further comprehensive report by 15 March 2008. Following the Secretary-General's recommendation in his letter of 11 March 2008 (S/2008/175), the Working Group reviewed the situation in early May 2008 and the Secretary-General provided a progress report on 9 May 2008 (see S/2008/318). In a letter dated 23 May 2008 from the President of the Security Council to the Secretary-General, Council members requested that the Working Group reconvene in the month of June 2008 with a view to receiving an updated report in July 2008. The Working Group held a meeting from 27 to 30 June 2008 to address and resolve outstanding issues.

The Secretary-General, through his letter dated 25 July 2008 to the President of the Security Council (S/2008/492), provided his recommendations and the report of the Working Group meeting that was held in June 2008. In the context of the meeting of the Working Group, the Government of Iraq requested cancellation of an additional 53 letters of credit. The Secretariat reviewed all the files pertaining to those letters of credit and cancelled 49 which had no outstanding claims of delivery. The number of outstanding letters of credit has been reduced to 95 as of 31 December 2008.

(e) By its resolution 1762 (2007), the Security Council terminated the mandate of UNMOVIC, pursuant to which an operating reserve to meet liquidation costs was established (see note 5). Unencumbered funds in the amount of $25,104,523 were transferred to the Development Fund for Iraq on 28 September 2007, and further sums of $875,285 and $2,548,000 were transferred on 28 February 2008 and 9 December 2008, respectively.

(f) From the adoption of Security Council resolution 1483 (2003) up to 31 December 2008, a total of $10.42 billion has been transferred to the Development Fund for Iraq. That amount includes $5,859,322 transferred during the 12-month period ended 31 December 2008. The remaining surplus funds will be transferred to the Development Fund for Iraq in accordance with the provisions of Security Council resolutions 1483 (2003) and 1546 (2004) and such guidance as the Security Council may provide.

Note 8
Contingent liabilities

Under the terms of Security Council resolution 1483 (2003), as part of the liquidation process, all claims and disputes involving the United Nations or its agencies with third parties in carrying out the activities of the programme are to be transferred to, and become the responsibility of, the Authority, which has since been succeeded by the Government of Iraq. There may be some circumstances where such a transfer is not possible and any liability and related fees will need to be met from operating reserves of the programme (see note 5). Such contingent liabilities include a claim of $4.6 million, which is currently under arbitration with one of the specialized agencies of the United Nations system involved in implementation of the programme.